

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE
DISTRICT OF COLUMBIA'S
SCHOOL BREAKFAST PROGRAM**



**AUSTIN A. ANDERSEN
INTERIM INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



December 3, 2004

Deborah A. Gist
Interim State Education Officer
Executive Office of the Mayor
441 4th Street, N.W., Room 350N
Washington, D.C. 20001

Dear Ms. Gist:

Enclosed is the final audit report summarizing the results of the Office of the Inspector General's (OIG) *Audit of the District of Columbia's School Breakfast Program* (OIG No. 03-2-17GD).

As a result of our audit, we directed recommendations which focused on establishing controls to ensure that eligibility guidelines are met and documented by site location, federal reimbursement claims are paid at the correct rates, and cost and participation are accurate, timely, and complete.

We received a response to the draft report from the State Education Office (SEO), dated October 18, 2004. We want to acknowledge that the SEO has positively received the audit results and has taken action to address our recommendations. However, the SEO did not fully agree with all the recommendations, based on a directive issued after the completion of our audit fieldwork by the United States Department of Agriculture (USDA). Based on the USDA directive, we have deleted Recommendation 3.

The SEO's comments to our draft report are incorporated where appropriate. The full text of the SEO's response is included at Exhibit C.

We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in cursive script, appearing to read "Austin A. Andersen", with a long horizontal flourish extending to the right.

Austin A. Andersen
Interim Inspector General

AAA/cj

Enclosure

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Deborah A. Gist, Interim State Education Officer
October 26, 2004
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Ms. Kate Eltrich, Clerk, Senate Subcommittee on D.C. Appropriations (1 copy)
The Honorable Susan M. Collins, Chair, Senate Committee on Governmental Affairs
Attention: Johanna Hardy (1 copy)
The Honorable Joseph Lieberman, Ranking Minority Member, Senate Committee on
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**AUDIT OF THE
DISTRICT OF COLUMBIA’S
SCHOOL BREAKFAST PROGRAM**

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INTRODUCTION

OVERVIEW

This report summarizes the Office of the Inspector General's (OIG) audit of the District of Columbia's School Breakfast Program (Breakfast Program). This audit was requested by the former State Education Officer. The State Education Office (SEO) has the authority to execute all state functions with regard to federally sponsored child nutrition programs in the District. (See D.C. Code §§ 38-2601 - 38-2602).

The objective of the audit was to determine whether School Food Authorities (SFA) in the District of Columbia have submitted accurate, valid, and sufficient cost data to the SEO so that it could determine the SFAs' eligibility to receive reimbursement for meals at the severe-need rates in connection with the Breakfast Program.

CONCLUSIONS

The report contains one finding and, in Exhibit B, the results of our follow-up on a U.S. Department of Agriculture's (USDA) *School Year (SY) 2002 Management Evaluation*, which was performed by its Office of the Regional Director of the School Nutrition Program. Except as noted in the finding titled, "Controlling Reimbursements for Breakfasts," the SFAs adhered to established policies and procedures governing the accounting, documentation, and reporting of meal counts and associated expenses incurred in providing free or reduced breakfasts to eligible persons.

Our review showed that two SFAs were generally in compliance with requirements. However, the other two SFAs did not have documentation available for review to ensure that participants met eligibility requirements, and these SFAs did not verify the family income reported for the student. These two SFAS did not have adequate support for expenses used in their calculation of average cost per meals. Our review also showed that one of these SFAs received excessive reimbursement in the amount of \$89,000, and another SFA was under-reimbursed by \$4,000 because it had support available to show it qualified for the higher severe-need, reimbursement rate. A summary of potential benefits resulting from the audit is shown at Exhibit A.

SUMMARY OF RECOMMENDATIONS

This report contains recommendations for necessary action to correct the described deficiencies. The recommendations focus on establishing controls to ensure that eligibility guidelines are met and documented, federal reimbursement claims are paid timely and at the correct rates, and cost and participation data are maintained by the SFAs.

INTRODUCTION

MANAGEMENT RESPONSE

We received a response to the draft report from the State Education Office (SEO), dated October 18, 2004. We want to acknowledge that the SEO has positively received the audit results and has taken action to address our recommendations. However, the SEO did not fully agree with all the recommendations, based on a directive issued after the completion of our audit fieldwork by the United States Department of Agriculture. Based on the directive we have removed Recommendation 3.¹

The SEO's comments to our draft report are incorporated where appropriate. The full text of the SEO's response is included at Exhibit C.

¹ Recommendation 3 addressed the issuance of procedures and guidelines to the SFAs with regard to determining appropriate allocations of food and non-food expenses in instances in which these costs are combined or reported under a single contract for all food services to ensure that expenses used in the calculation of average cost per meal are reasonable, consistent, and supported. We were informed by USDA officials that SFA's are no longer required to separate costs for meals served (breakfast from lunch) or by location (if the SFA serves meals at more than one location). Therefore, this recommendation was removed.

INTRODUCTION

BACKGROUND

The mission of the SEO is to “enhance educational services and opportunities to meet the life-long learning needs of all District residents through research, effective policy, and programs that ensure the equitable distribution and availability of administrative, financial, and nutrition resources.” The SEO executes the Breakfast Program through its Special Nutrition and Commodities Department. During the period under review, the SEO provided Breakfast Program services to four SFAs.

School Food Authority Descriptions

- The Next Step/Proximo Paso Public Charter School (Next Step) provides a full-time, year round academic program to young people who have dropped out of school or who have never been enrolled in school in the U.S. The Next Step offers intensive high school equivalency courses, classes in English as a second language, and educational enhancement courses. One half of the Next Step's students are teen parents who need extra support and attention to overcome the obstacles that have prevented them from continuing their education.
- The National Children’s Center (NCC) provides quality services that improve the lives of persons with developmental disabilities. NCC’s programs include Adult Day Services and educational services are provided in a School Program and Early Intervention Program (EIP). NCC also provides comprehensive residential services for over 50 young people aged 14 to 21, including an intermediate care facility at the Northwest campus and a transitional living unit, and two group homes in Northwest D.C.
- Oak Hill Youth Facility (Oak Hill) is a correctional facility that houses approximately 170 D.C. juveniles who have been convicted of crimes or are awaiting trial. D.C. Youth Services Administration oversees the facility, which also has a school administered by the District of Columbia Public Schools system.
- The District of Columbia Public Schools (DCPS) system is comprised of 162 locations that serve approximately 68,000 students. DCPS has 144 locations that serve breakfast. A major program within DCPS is Food and Nutrition Services. This activity is designed to provide nutritious meals and meal eligibility classification services to DCPS students and various entities requiring meal eligibility data so that children can have the nutritional requirements they need to prepare for learning.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether the District of Columbia’s schools have submitted accurate, valid, and sufficient cost data to the SEO so that it could determine the schools’ eligibility to receive reimbursement for meals at the “severe need” rates.

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Accordingly, we focused our audit on the examination of records submitted by SFAs to support federal claim reimbursements for free or reduced breakfasts at the severe need reimbursement rate. The audit period generally covered the 4 school years 1998 - 1999 through 2001 – 2002, although some aspects of the audit were outside that period.

During the initial stages of our audit, the SEO requested that we follow up on recommendations contained in the *SY 2002 Management Evaluation* prepared by the USDA's Food and Nutrition Service. Specifically, the SEO asked that we validate cost and participation data and perform year-end reconciliations at the schools to determine if severe need rates were properly earned. The results of this review are reported at Exhibit B.

In order to accomplish our objectives, we reviewed controls and procedures over the documentation and reporting of meals served and expenses incurred, to evaluate their accuracy and reasonableness. We obtained and reviewed invoices and other documents supporting costs associated with the Breakfast Program. With this data we determined whether locations met State agency guidelines and verified calculations for average cost per meal based on formulas provided by the USDA. Additionally, we conducted interviews with the employees who are responsible for the monitoring and reporting of costs data, meal counts. We also obtained reimbursement data from the SEO of amounts paid to SFAs for the period August 1, 2001, to June 30, 2003, and reconciled these amounts to federal reimbursement claim forms submitted by the SFAs. We did not use computer-processed data to perform the audit. The audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

CONCLUSIONS AND RECOMMENDATIONS

This report contains recommendations for necessary action to correct deficiencies noted in the Finding. The recommendations focus on establishing controls to ensure that eligibility guidelines are met and documented by site location, federal reimbursement claims are paid timely and at the correct rates, and cost and participation data are maintained by the SFAs.

The recommendations are intended to correct the deficiencies and discrepancies we noted at the four SFAs receiving reimbursement.

- Two of the SFAs did not have documentation available for review to ensure that participants met eligibility requirements, and they did not perform required verifications of income for the students.
- These same two SFAs did not have adequate support for expenses used in their calculation of average cost per meal. One of these two SFAs did not have support to show that it qualified for the higher severe-need, reimbursement rate for any of the

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4 years reviewed; the other SFA had support for 2 of the 4 years reviewed. One of these SFAs received excessive reimbursement of about \$89,000.

- One SFA received reimbursements for breakfast costs at the non-severe need rates although it had adequate support that its average cost per meal would qualify that SFA for reimbursement at the higher severe-need rate. Additionally, our reconciliation of amounts paid by the SEO showed that the SFA had not received reimbursement for 5 months during the 2000 – 2001 school year. In total, we calculated that this SFA was underpaid about \$4,000.
- Two of the four SFAs served lunch, dinner, and snacks in addition to breakfast. Methodologies employed to arrive at average cost per breakfast did not appear to be equitable or reasonable. This is discussed in detail below in the section titled “Other Matters of Concern.”

OTHER MATTERS OF CONCERN

Our tests were generally designed and limited to show whether the SFAs had documentation to meet eligibility requirements, support direct and indirect costs used in the calculation of average cost per meal, and to ensure that the site was reimbursed for breakfast costs at the correct rate. The SFA’s average cost per meal is used as the basis for its federal breakfast meal reimbursement.

During our review, we noted that two of the four SFAs reviewed (NCC and Oak Hill) served breakfast, lunch, dinner, and snacks daily. We believe that the methodology used to calculate average cost per meal at these two SFAs was not equitable or reasonable. The problem is twofold. First, the SFAs did not have invoices or other support which identified what items were actually purchased. Second, the SFAs did not separate out costs associated with dinner and snacks from breakfast costs, but included total expenses incurred in the calculation of the average cost per meal for breakfast and lunch served without taking into consideration costs associated with dinner and meals served on the weekends. The inclusion of costs for the additional meals served inflates the average cost per meal calculation. As a result, we could not determine at what rate the SFA should be reimbursed.

If the SFA enters into a single contract to provide meals and elects not to separate out expenditures by meal and location, then the average cost per meal should be based upon the total cost of the contract divided by the total meals served. If the SFA purchases all food items collectively, a determination as to what portion is attributed to each meal served must be made and documented. In either case, the resulting average cost per meal should not be inflated, but rather truly representative of only the actual costs for breakfast.

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We calculated an overpayment at the NCC because officials did not: 1) have documentation that it met eligibility requirements; 2) report data separately for its three locations, as required by the regulation; and 3) have any invoices for food or non-food items for the period we reviewed.

Our draft report contained a recommendation to the State Education Officer that would require the issuance of procedures and guidelines to the SFAs with regard to determining appropriate allocations of food and non-food expenses in instances in which these costs are combined or reported under a single contract for all food services. Additionally, we recommended that established guidelines ensure that expenses used in the calculation of average cost per meal are reasonable, consistent, and supported.

We were informed by USDA officials that SFAs are no longer required to separate costs for meals served (breakfast from lunch) or by location (if the SFA serves meals at more than one location). Therefore, this recommendation was removed.

FINDING AND RECOMMENDATIONS

FINDING: CONTROLLING REIMBURSEMENT FOR BREAKFASTS
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SYNOPSIS

Controls were not adequate to ensure SFAs received only reimbursements to which they were entitled. Except for DCPS and The Next Step, the SFAs did not always obtain required documentation or maintain other necessary documentation to support their entitlement to reimbursement for breakfasts or for reimbursement at the higher severe-need rate. In addition, the SFAs did not always verify income of households. As a result, the SEO paid one SFA a total of \$89,000 for a 2-year period although the SFA had no support showing it was entitled to reimbursement. The SEO also underpaid another SFA by \$4,056 by paying at the wrong per meal rate.

DISCUSSION

Background. The School Breakfast Program provides nutritionally balanced, low-cost or free breakfasts to children regardless of the household's ability to pay. Federal reimbursement is available for all breakfast meals served to students. It began as a pilot project in 1966 to improve the nutrition and dietary practices of children in low-income areas. In 1975, the School Breakfast Program was made available to any school that wanted to participate.

To participate, the SEO and each of the four SFAs must meet the requirements of USDA regulations found in 7 CFR Parts 220 and 245. These regulations provide for SFAs to verify household income of participants receiving free or reduced priced meals and provide the authority for the Breakfast Program.

Specifically, 7 CFR § 220.9(e) provides in part:

Severe need schools. The State agency, or FNSRO [Regional Office of the Food and Nutrition Service, USDA] where applicable, shall determine whether a school is in severe need based on the following eligibility criteria: (1) The reimbursement rate per meal established by the Secretary is insufficient to cover the costs of the school's breakfast program; (2) the school is participating in or desiring to initiate a breakfast program; and (3) 40 percent or more of the lunches served to students at the school in the second preceding school year were served free or at a reduced price.

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In addition, 7 CFR § 220.9(a) provides that State Agencies, like the SEO, shall make reimbursements to schools (SFAs) only in connection with breakfasts meeting the requirements of §§ 220.8 and 220.11(b). Section 220.8(e)(2)(i) requires that all menu items or foods offered in a reimbursable breakfast must comply with the nutrition standards set forth by USDA and § 220.11(b) requires claims for reimbursement to include data in sufficient detail to justify the reimbursement claimed and enable the State agency to provide Reports of School Program Operations required by USDA regulations.

State Agencies and SFAs that claim reimbursement for free, reduced price, and paid meals under USDA programs must ensure that they have adequate documentation on file to support the claim. USDA issued a memo on June 7, 2001, to provide additional guidance on the severe need component of the Breakfast Program, recap regulations, and address questions surrounding the calculation of breakfast costs. This guidance outlined allowable direct and indirect costs to be included in the calculation of cost per reimbursable breakfast. Direct cost included food costs and labor. Indirect costs included such items as overhead, rent and utilities.

Accordingly, SFAs must maintain accurate, valid, and sufficient cost data by location to support expenses claimed for reimbursement in connection with the Breakfast Program. Such records include invoices and receipts for food and non-food items, which identify the items purchased. Additionally, a justification or sound methodology for costs not directly or solely attributable to the Breakfast Program included in the calculation of meal costs should be documented. These costs include labor, equipment, food preparation, and other overhead expenses.

At the beginning of each school year, SFAs request that student households complete the form, “Confidential Application for National School Lunch/Breakfast/Special Milk” (Application). The Application identifies the number of persons in the household and total household income. Based on the information reported on this form, the applicable SFA determines whether the student is eligible to receive a free or reduced meal. These Applications were available at DCPS and The Next Step but were not available for review at NCC and Oak Hill, nor were any other supporting documents to show that these SFAs met the requirements or were granted a waiver or exception for not completing the application. This deficiency may preclude reimbursement.

SFAs are required to confirm through specific verification procedures the eligibility of individual participants for free or reduced price benefits under the Breakfast Program according to 7 CFR § 245.6a(a), which provides:

Verification requirement. School officials may seek verification of the information on the application. State agencies [the SEO in the District] shall ensure that by December 15 of each School Year, School Food Authorities

FINDING AND RECOMMENDATIONS

have selected and verified a sample of their approved free and reduced price applications. . . . [S]ample size shall be based on the number of approved applications on files as of October 31. . . . School Food Authorities are required to satisfy the verification requirement by using either random sampling or focused sampling. . . . A State may require all School Food Authorities to perform either random or focused sampling. School Food Authorities may choose to verify up to 100 percent of all applications to improve program integrity. Any State may, with written approval of FNS [Food and Nutrition Service, USDA], assume responsibility for complying with the verification requirements of this part within any of its School Food Authorities.

Exceptions to income verification are authorized in certain instances. According to 7 CFR § 245.6a(a)(5):

Verification efforts are not required in residential child care institutions;² schools in which FNS has approved special cash assistance claims based on economic statistics regarding per capita income; or schools in which all children are served with no separate charge for food service and no special cash assistance is claimed. . . . Verification of eligibility is not required of households when the determination of eligibility was based on documentation provided by the State or local agency responsible for administration of the Food Stamp Program, FDPIR [Food Distribution Program for Households on Indian Reservations] or TANF [Temporary Assistance for Needy Families] Program. . . .

SFAs that qualify are entitled to reimbursement at the non-severe-need rates or the severe-need rates, depending upon the average costs of breakfasts, as discussed previously. For example, during the period July 1, 2002, through June 30, 2003, the reimbursement rate per meal for a free meal provided to a student was \$1.17 at the non-severe-need rate and \$1.40 at the severe-need rate. These reimbursement rates generally change each year.

Results by SFA. As indicated in the Table of Results that follows, DCPS and The Next Step were the only SFAs that met all the requirements for all years under review.

² We believe that the Oak Hill is “residential child care institution” based on the definition in the related National School Lunch Program provided in 7 CFR §210.2 for schools: “School means . . . (c) any public or nonprofit private residential child care institution The term ‘residential child care institutions’ includes . . . juvenile detention centers.”

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Table of Results

Site	School Year	SFA Requirements		
		Met Verification Requirement ³	Met 40 Percent Participation Requirement	Had Accurate, Valid, and Sufficient Cost Data
The Next Step	1998-1999	Not Participating		
<i>See Note 1</i>	1999-2000	Yes	Yes	Yes
	2000-2001	Yes	Yes	Yes
	2001-2002	Yes	Yes	Yes
NCC	1998-1999	No	Unsupported	No
<i>See Note 2</i>	1999-2000	No	Unsupported	No
	2000-2001	No	Unsupported	No
	2001-2002	No	Unsupported	No
Oak Hill	1998-1999	Exempt	Unsupported	No
<i>See Note 3</i>	1999-2000	Exempt	Unsupported	No
	2000-2001	Exempt	Unsupported	Yes
	2001-2002	Exempt	Unsupported	Yes
DCPS	1998-1999	Yes	Yes	Yes
<i>See Note 4</i>	1999-2000	Yes	Yes	Yes
	2000-2001	Yes	Yes	Yes
	2001-2002	Yes	Yes	Yes

The Next Step – (Note 1). As shown in the Table of Results, The Next Step met the 40-percent-participation requirement, had appropriate cost data, and verified household income. However, we also determined that The Next Step was entitled to reimbursement at a higher rate.

Income Verification. Although officials had not performed required verifications of income in the required time frame, The Next Step School officials initiated and completed (during the period of OIG audit fieldwork) the required 3 percent verifications for all 3 years in which meals were served to students. Accordingly, we recorded this accomplishment in the Table of Results.

Costs. The Next Step had accurate, valid, and sufficient cost data to support expenses incurred for the Breakfast Program.

Reimbursements. We obtained data from the SEO that identified reimbursement amounts paid to The Next Step. We found that the SFA received reimbursements for breakfast costs at the non-severe-need rates. However, based on our calculations, The Next Step was eligible for reimbursement at the severe-need rate for each

³ We observed that those SFAs that verified household income did not always meet the December 15 deadline each school year for completing verifications as required by 7 CFR § 245.6a(a).

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of the 3 years reviewed. Additionally, we determined that the SEO had not reimbursed The Next Step for 5 months during SY 2000 – 2001. Accordingly, as of June 30, 2003, payments due to The Next Step totaled \$4,055.51.

National Children’s Center – (Note 2). Our review of data at this SFA showed that NCC did not meet the eligibility criteria for reimbursement for free and reduced breakfasts. NCC officials stated that records prior to SY 2002 – 2003 were not available for our review because of staff turnover. NCC had no Applications for 2002 – 2003 and did not have data identifying the clients that were served meals, which indicates a more serious internal management control weakness than personnel turnover. Specifically, we noted that NCC did not:

- maintain a list of Breakfast Program participants for any of the years under our review;
- retain participant Applications to support eligibility based on household income and to provide the basis for verification;
- report and calculate costs for meals by type or location; and
- employ a sound methodology in its calculation of average cost per meal. NCC budgeted for meals based on a unit price per meal and an estimate of the number of meals to be served. The identified budgeted unit price per breakfast for SY 2002 - 2003 was \$1.05. However, in support of its claim for reimbursement for breakfast and lunch, NCC allocated the total cost for meals evenly – total contract costs were prorated against total number of breakfast and lunches meals served – without consideration of other meals served.

NCC has three locations, two of which serve breakfast. Total food and non-food costs were combined and divided by total breakfasts and lunches served at all three locations to arrive at the average cost per meal. However, eligibility requirements are to be met on a site-by-site basis. Additionally, reimbursements should be calculated and reported separately for each location.

NCC had only summary data for the number of reimbursable meals served and total food costs for the 1998-1999, 1999-2000, 2000-2001, and 2001-2002 school years. The NCC contracted with a company to provide food, beverages, and related supplies for meals served at the following NCC locations: 1) 6200 Second Street, NW; 2) 3400 MLK Ave, SE; and 3) 2323 Carroll Street, NW. Bills provided by the contractor did not specify what food or other items were purchased, nor did they separate out costs by location or meal.

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Without detailed itemization of purchases, we could not determine whether purchases were eligible. Additionally, because the SFA served three meals and snacks daily, we could not determine costs that were attributed solely to weekday breakfasts served. While it is evident that NCC did incur cost associated with the Breakfast Program, we could not determine from available information whether the average cost per meal exceeded allowable severe-need rates.

Therefore, we conclude that NCC did not establish the eligibility of its clients or substantiate its costs and should have been reimbursed, if at all, at the non-severe-need rates rather than the severe-need rates for the 4-year period that we reviewed. Accordingly, SEO overpaid NCC from \$13,269 to \$89,000, as of June 30, 2003.

Oak Hill Youth Facility – (Note 3). This SFA is a juvenile detention facility. Oak Hill provides all meals to its residents, 7 days a week, 365 days a year.

Oak Hill officials were not able to provide invoices to support food costs for SYs 1998 - 1999 and 1999 – 2000. Food costs submitted were based on 20 percent of actual expenditure amounts recorded to budget categories for meals. Current staff stated that invoices were maintained offsite, but they were unable to locate the invoices. Because documentation was not available to support actual purchases, we could not determine whether items were appropriately coded to budget categories or ensure they were for approved items.

For SYs 2000 – 2001 and 2001 – 2002, invoices were available to support reported food costs. Oak Hill officials stated that they separate food invoices based on actual expenses and, in the case of shared items, prorate the costs. While food costs are separated by breakfast and lunch, Oak Hill did not determine which items or cost percentage was applicable for dinner and snacks and it did not prorate cost for weekends. For example, items such as eggs, Danish pastries, and breakfast sausages would be counted as breakfast costs. Items such as fruit and bread would be an expense shared among breakfast and other meals. Vegetables and meat would be allocated to dinner.

However, Oak Hill did not have documentation available to show the individual calculations arrived at by Oak Hill officials. Specifically, they did not have a documented process that provided the methodology for prorating costs that were not unique to breakfast, such as bread and non-food items. They could not explain whether the items/costs were divided by three to allocate costs among the three meals served each day, or whether some other method was used to allocate costs.

Notwithstanding inadequate allocation processes, we determined that the per breakfast meal costs of items uniquely associated with breakfast were still greater than the severe-need rates established for the years reviewed, which qualified Oak Hill for reimbursement at the severe-

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need rates. Our analysis of invoices showed that allowable items were purchased and items appeared to be reasonable. Although we found it unnecessary in this instance to prorate costs to show that Oak Hill was entitled to maximum reimbursement, Oak Hill needs to establish methods and processes that will ensure all costs are properly allocated to different meals so that it will not lose future reimbursements.

DCPS – (Note 4). DCPS verified household income of 3 percent of participants, met the requirement for 40-percent participation, and had accurate, valid, and sufficient cost data to support expenses incurred for the Breakfast Program. No exceptions were noted.

RECOMMENDATION NO. 1a:

We recommended that the State Education Officer establish controls to ensure that the SEO pays claims for reimbursement at the correct rates.

SEO RESPONSE

The SEO concurred with this recommendation. The SEO has developed policies and procedures to ensure that SFAs are paid correctly and within the regulatory time frame.

OIG COMMENTS

We consider SEO actions to be responsive to our recommendation.

RECOMMENDATION NO. 1b:

We recommended that the State Education Officer establish controls to ensure that cost and participation information submitted by the SFAs to the SEO are accurate, timely, and complete.

SEO RESPONSE

The SEO did not concur with this recommendation. SFAs are no longer required to document that the normal per meal reimbursement is insufficient to cover the cost of the School Breakfast Program at the severe need rate. However, participation data for the 146 DCPS locations are still required to be submitted to the SEO by December 1st of each year and participation data for all other SFAs is obtained from the current agreement on file.

To ensure the accuracy, SEO staff verifies that participation information is accurate and complete during Coordinated Reviews and Technical Assistance visits to each SFA.

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OIG COMMENTS

The OIG contacted USDA representatives to obtain clarification of the policy directive cited by the SEO to refute this recommendation. USDA officials informed the OIG that while the SFAs are no longer required to submit cost data to the SEO, they are still required to submit participation data. USDA officials added that the SEO is responsible for establishing their own financial management system to which SFAs under their purview must adhere. While USDA guidelines have been revised and no longer require SFAs to maintain cost records to support meal reimbursements at the higher severe need rate, cost data should be retained by the SFAs to ensure compliance with federal regulations.

RECOMMENDATION NO. 1c:

We recommended that the State Education Officer establish controls to ensure that eligibility guidelines are met and documented by site location and meal reimbursement program.

SEO RESPONSE

The SEO concurred with this recommendation.

OIG COMMENTS

We consider SEO actions to be responsive to our recommendation.

RECOMMENDATION NO. 1d:

We recommended that the State Education Officer reconcile cost data annually.

SEO RESPONSE

The SEO did not concur with this recommendation. The SEO provided a USDA Food and Nutrition Service policy directive that was issued after the completion of the audit fieldwork. Based on this directive, SFAs are no longer required to reconcile cost data annually.

OIG COMMENTS

We confirmed that USDA guidelines have been revised and no longer require SFAs to maintain cost records to support meal reimbursements at the higher severe need rate. Therefore, it would no longer necessary to perform annual cost reconciliations.

FINDING AND RECOMMENDATIONS

Additionally, the SEO reported in response to recommendation 1c that they have performed several Coordinated Review Effort reviews. These reviews were described as a comprehensive on-site evaluation of the SFA's participation in the NSBP. Many areas of compliance are reviewed. The SEO also reported that these reviews will continue to be conducted in future school years. We believe these reviews meet the intent of this recommendation.

RECOMMENDATION NO. 2:

We recommended that the State Education Officer recover overpayments made to the National Children's Center and reimburse The Next Step the amounts due.

SEO RESPONSE

The SEO concurred with this recommendation. The SEO established December 30, 2004, as the target date for the completion of recovering overpayments from the National Children's Center and reimbursing The Next Step for funds owed to them.

OIG COMMENTS

We consider SEO actions to be responsive to our recommendation.

RECOMMENDATION NO. 3:

This recommendation was removed based on guidance issued by USDA. After the completion of our fieldwork and issuance of our draft report, we were informed by USDA officials that SFAs are no longer required to separate costs for meals served (breakfast from lunch) or by location (if the SFA serves meals at more than one location).

SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

Recommendation	Description of Benefit	Amount and Type of Benefit	Status ¹
1a	Program Results. The development of procedures to ensure compliance with Breakfast Program eligibility guidelines. Identification of the management controls to be used by each organization to operate and monitor all aspects of the Breakfast Program.	Non-monetary	Closed
1b	Program Results. Establish controls to ensure that cost and participation information submitted by the SFAs to the SEO are accurate, timely, and complete.	Non-monetary	Closed
1c	Program Results. Establish controls to ensure that eligibility guidelines are met and documented by site location and meal reimbursement program.	Non-monetary	Closed
1d	Program Results. The development of procedures to ensure SEO reconciles cost data annually.	Non-monetary	Closed
2	Economy and Efficiency. Initiate recoupment action for unsupported cost expenditures for Severe Need Breakfast Program reimbursements paid.	One-time recovery of \$13,269 - \$89,000. One time cost of \$4,056.	Open

¹ This column provides the status of a recommendation as of the report date. For final reports, “Open” means management and the OIG are in agreement on the action to be taken, but action is not complete. “Closed” means management has advised that the action necessary to correct the condition is complete. “Unresolved” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

FOLLOW UP ON PREVIOUSLY REPORTED FINDINGS

The U.S. Department of Agriculture's Office of the Regional Director of the School Nutrition Program disclosed the results of its *SY 2002 Management Evaluation*, which provided that findings previously reported in its *SY 2000 Management Evaluation* pertaining to the School Breakfast Program had not been adequately addressed. Our audit tests address these concerns.

SY 2002 Management Evaluation Report – Action Item Number One - Finding 1

The State Education Agency (SEO) was not completing all the requirements necessary regarding the payment of severe need breakfast rates. First, participation data by school was not obtained for D.C. Public Schools (DCPS) for SY 2000, SY 2001, or SY 2002 to confirm eligibility for severe need breakfast rates. The SEO did, however, have this data for the single-site private/charter schools that applied. Further, for SY 2000, DCPS was paid the severe need rate District-wide, even though some schools were not eligible, and the SEO has not collected the overpayment. We did note that DCPS claimed some breakfasts in the non-severe need category in SY 2001 and SY 2002.

Required Action:

Participation data must be obtained for DCPS by school for SYs 2000, 2001, and 2002 to determine that 40 percent or more of the meals were served free or reduced price in the second prior year. Specifically, the SEO must obtain the percentage data by school to confirm eligibility and collect the overpayment for the severe need payments made to ineligible schools.

Results of OIG Review

During our audit we obtained and reviewed eligibility data for DCPS by individual school and confirmed that DCPS had sufficient documentation to support that at least 40 percent of the breakfasts were served at free or reduced prices to students in the second prior year for SY's 2000, 2001, and 2002. No exceptions were noted.

SY 2002 Management Evaluation Report – Action Item Number One - Finding 2

Cost data submitted for two private/charter schools were inadequate to determine eligibility for severe need breakfast rates. The two schools that applied sent in cost data for SY 2001 that were unclear. The SEO did not follow-up to obtain clarification or more adequate data.

FOLLOW UP ON PREVIOUSLY REPORTED FINDINGS

Required Action:

The SEO must follow-up to obtain clarification or more adequate cost data for SY 2001 and SY 2002 from the two private/charter schools in order to do the year-end reconciliation.

DISCUSSION

Cost data would include documentation (invoices) of school breakfast expenditures for food items, non-food items, milk and juice, labor costs, allowable depreciation, and indirect costs.

The two private/charter schools identified in the Management Evaluation were The Next Step and the National Children's Center. Both of these locations contract with a company to provide prepared meals. Original data submitted only identified contract prices.

Results of OIG Review

The Next Step contracted with a local catering/restaurant establishment to provide prepared breakfasts for SYs 2001 and 2002. Detailed invoices were available for the school years identified above for food costs. The cost for breakfast is billed on a monthly basis. All invoices were reviewed. Invoices identified the number of breakfasts charged. Breakfast usually included dry cereal, milk, juice, and fruit.

Costs used for the calculation of average cost per breakfast for the Next Step Charter School were accurate, valid, and sufficient to verify that the Next Step was eligible to receive reimbursement for meals at the "severe need" rates. We noted that reimbursements were made at the non-severe rate.

The National Children's Center (NCC) contracted with a vendor to provide food and beverages and related supplies for meals served at the following NCC locations: 1) 6200 Second Street, NW; 2) 3400 MLK Ave, SE; and 3) 2323 Carroll Street, NW. Statements (invoices) are provided to NCC, generally on a monthly basis. The contract with the vendor allows NCC to audit the bills at any time. NCC officials stated that they did not believe that any audit has ever been conducted.

FOLLOW UP ON PREVIOUSLY REPORTED FINDINGS

The format of the invoices identified a breakout of costs charged into the following categories:

- Cost of sales – food
- Payroll
- Operating Expenses
- Management Fee

NCC was unable to provide us complete documentation to support breakfast expenditures for SYs 2001 and 2002. Based on the copies of bills included in claim reimbursement data files, for SYs 2001 2002, bills approximated \$40,000 each month. Bills did not specify what food or other items were purchased, nor did they separate out costs by location or by meal – breakfast, lunch, dinner, or snack. As such, the OIG could not make a determination if expenses used for the calculation of average cost per breakfast for the NCC were accurate, valid, and sufficient to verify that the NCC was eligible to receive reimbursement for meals at the “severe need” rates.

SY 2002 Management Evaluation Report – Action Item Number One - Finding 3

A year-end reconciliation was not done to determine if severe need breakfast rates were properly earned for SY 2001 and SY 2002, and no procedural methods exist for the SEO to follow.

Required Action:

A year-end reconciliation for SY 2001 and SY 2002 must be done to determine if severe need rates were properly earned.

Results of OIG Review

We performed year-end reconciliations at each of the four SFAs for the following school years: 1998-1999, 1999-2000, 2000-2001, and 2001-2002. Below are our results.

The Next Step Charter School – Documentation of cost data showed that the site met the requirements to be reimbursed at severe need rates. Next Step had only been reimbursed at the non-severe need rate. As a result, the SFA was underpaid by more than \$3,000 for SYs 2001, 2002, and 2003.

The National Children’s Center – Documentation to verify eligibility requirements, cost data, or other expenses used in the calculation of average cost per breakfast was not adequate. As such, we believe the site should only be reimbursed at the non-severe rates. The OIG

FOLLOW UP ON PREVIOUSLY REPORTED FINDINGS

calculated the overpayment and found NCC's overpayment exceeded \$13,000 for the three year period reviewed.

DCPS – Documentation was available to support that severe need rates were properly earned.

Oak Hill - Oak Hill officials were not able to provide invoices to support food costs for SYs 1998 - 1999 and 1999 – 2000. Food costs submitted were based on 20 percent of actual expenditure amounts recorded to budget categories for meals. Current staff stated that invoices were maintained offsite, but they were unable to locate the invoices. Because documentation was not available to support actual purchases, we could not determine whether items were appropriately coded to budget categories or ensure they were for approved items. The OIG auditors were able to verify eligible participants in the programs for the years under review and were satisfied that the cost of providing meals to residences would have been at the severe needs rate. For SYs 2000 – 2001 and 2001 – 2002, invoices were available to support reported food costs.

STATE EDUCATION OFFICE'S RESPONSE TO THE REPORT



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Executive Office of the Mayor
State Education Office

October 18, 2004

Austin A. Andersen
Interim Inspector General
Office of the Inspector General
717 14th Street, NW, Suite 500
Washington, DC 20005

Dear Mr. Anderson:

The State Education Office (SEO) would like to thank you for the thoroughness and professional manner in which your staff conducted the audit. We look forward to working with your staff to resolve the findings and respond appropriately to the three recommendations contained in the report.

This letter transmits the SEO responses to the Audit of the District of Columbia's School Breakfast Program's findings and recommendations contained in the draft Audit Report (OIG No. 03-2-1-17GD) dated September 1, 2004, as follows:

1. The OIG recommends the Interim State Education Officer establish controls to ensure that:
 - a. The SEO pays claims for reimbursement at the correct rates.
 - b. Cost and participation information submitted by the SFA's to the SEO are accurate, timely, and complete.
 - c. Eligibility guidelines are met and documented by site location and meal reimbursement program.
 - d. It reconciles cost data annually.
2. Recover overpayments made to the National Children's Center and reimburse The Next Step the amounts due.

441 4th Street NW · Room 350 North · Washington, DC 20001 · (202) 727-6436
www.seo.dc.gov

STATE EDUCATION OFFICE'S RESPONSE TO THE REPORT

Page 2

3. Provide procedures and guidelines to the SFA's with regard to determining appropriate allocations of food and non-food expenses in instances in which these costs are combined or reported under a single contract for all food services. Such guidelines should ensure that expenses used in the calculation of average cost per meal are reasonable, consistent, and supported.

SEO Response to Action Item 1a

The SEO concurs with this recommendation and this finding has been abated.

The SEO has developed policies and procedures to ensure that School Food Authorities (SFA), are paid correctly and within the regulatory time frame. (See attached Claims Procedures.)

SEO Response to Action Item 1b

The SEO does not concur with this recommendation.

Since the OIG audit report was conducted USDA guidelines have been revised and SFA'S are no longer required to maintain cost records to receive severe need reimbursement. State Agency Memo-NSLP-11-04 was distributed to all SFA's on July 15, 2004 (See attached.)

Participation information for DCPS is required by the SEO to be collected for all 146 participating schools by October 30th of each year. This information is not submitted with DCPS annual agreement or included on their monthly claim for reimbursement. The SEO has extended the timeline for DCPS to submit participation information by December 1, 2004 due to the large number of schools. Participation data for all other participating SFA's is obtained from the current agreement on file. To further ensure accuracy, staff verifies that participation information is accurate and complete during Coordinated Reviews and Technical Assistance visits to each SFA.

SEO Response to Action Item 1c

The SEO concurs with this finding.

During school year 2003-2004, NSLP Program Specialists completed a total of 15 Coordinated Review Effort (CRE) reviews--a comprehensive on-site evaluation of a School Food Authority participating in the National School Breakfast, Lunch and Snack Program. The review analyzes compliance in many specific areas. Income eligibility forms were carefully reviewed at 36 schools to ensure that all free and reduced applications on file were properly classified and signed by designated school officials. In addition, during school year 2004-2005 NSLP staff will randomly conduct unscheduled visits to selected schools to ensure that income eligibility forms are properly maintained and accurately completed.

STATE EDUCATION OFFICE'S RESPONSE TO THE REPORT

Page 3

visits to selected schools to ensure that income eligibility forms are properly maintained and accurately completed.

SEO Response to Action Item 1d

The SEO does not concur with this recommendation.

On July 12, 2004, a final rule entitled Severe Need Assistance for the School Breakfast Program requirements was published. Effective July 1, 2004, schools no longer have to maintain cost records to receive the severe need reimbursement rate for the school breakfast program.

In addition, the SEO notified all schools of this new requirement by providing a State Agency Memo, NSLP #11-04 dated July 15, 2004.

SEO Response to Action Item 2

The SEO concurs with this recommendation.

The SEO has established December 30, 2004 as the target date for the completion of recovering overpayments from National Children's Center and reimbursing The Next Step for funds owed to them.

SEO Response to Action Item 3

The SEO does not concur with this recommendation.

On July 1, 2004, a final rule entitled Severe Need Assistance for the School Breakfast Program requirements was published. Effective July 1, 2004, schools are no longer required to document that the normal per meal reimbursement is insufficient to cover the costs of the School Breakfast Program. Therefore, procedures and guidelines to the SFA's regarding determining appropriate allocations of food and non-food expenses and expenses used in the calculation of average cost per meal are reasonable, consistent and supported are no longer required (See attached.)

If you have any questions, please feel free to call Dr. Cynthia Bell on (202) 724-7655.

Sincerely,



Deborah A. Gist
Interim State Education Officer

Attachments

cc: Cynthia M. Bell

STATE EDUCATION OFFICE'S RESPONSE TO THE REPORT



United States
Department of
Agriculture

Food and Nutrition
Service

Mid-Atlantic Region

300 Corporate Blvd
Robbinsville, NJ
08691-1598

Date: July 12, 2004

Re: SD Memo 04-041

Subject: Severe Need Assistance for the School Breakfast Program: Reauthorization
2004

To: State Child Nutrition Directors

Section 201 of the Child Nutrition and WIC Reauthorization Act of 2004 (the Act) amended section 5 of the Child Nutrition Act of 1966. Section 5(d) provides the criteria for determining schools eligibility for severe need assistance under the School Breakfast Program.

Effective July 1, 2004, schools are no longer required to document that the normal per meal reimbursement is insufficient to cover the costs of the SBP. Beginning with School Year 2004-2005, schools no longer have to maintain cost records to receive the severe need reimbursement rate for the SBP. However, any claims outstanding from School Year 2003-2004 are still subject to the cost-accounting procedures for severe need assistance.

The Act retained the provision that requires that schools must have served 40 percent or more of their lunches to free or reduced price students in the second preceding year in order to receive severe need assistance. In addition, the law now permits USDA to determine how the 40 percent test is met for schools that did not serve lunches in the second preceding year. We will be issuing further guidance on this new provision.

If you have any questions concerning this matter, do not hesitate to contact your School Programs representative.

/signed/

PATRICIA N. DOMBROSKI
Regional Director
Special Nutrition Programs

The Food and Nutrition Service is an agency
of the Department of Agriculture
An Equal Opportunity Provider and Employer

STATE EDUCATION OFFICE'S RESPONSE TO THE REPORT



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Executive Office of the Mayor
State Education Office

DATE : July 15, 2004
TO : ALL SCHOOL FOOD AUTHORITIES
FROM : Cynthia M. Bell
Cynthia M. Bell, State Director
SUBJECT : Severe Need Assistance for the School Breakfast Program:
Reauthorization 2004
REF : State Agency Memo
NSLP 11-04

This memorandum is issued to notify all School Food Authorities (SFA), who participate in Child and Nutrition Programs administered by the United States Department of Agriculture (USDA) of new requirements under the National School Breakfast Program (SBP) relating to the amended requirements for severe need assistance under the School Breakfast Program.

The State Education Office (SEO) is providing the attached memorandum to each School Food Authority to notify you that effective July 1, 2004, Section 201 of the Child Nutrition and WIC Reauthorization Act of 2004 (the Act), amended section 5 of the Child Nutrition Act of 1966. Beginning school year 2004-2005 schools are no longer required to maintain cost records to receive the severe need reimbursement rate for the SBP. However, any claims outstanding from school year 2003-2004 are still subject to the cost-accounting procedures for severe need assistance.

If you have any questions, please contact Rita Akers on 724-7775 or Diedre Bell on 724-7861,

Attachment

441 – 4th Street, N. W. Room 350 North Washington, DC 20001 (202) 7276436
www.seo.dc.gov

STATE EDUCATION OFFICE'S RESPONSE TO THE REPORT

PROCEDURES **FOR THE PROCESSING OF CLAIMS FOR REIMBURSEMENT** **FOR THE FEDERAL NUTRITION PROGRAMS**

The procedures outlined below are designed to ensure that all "Claims for Reimbursement" for Federal Nutrition Programs are tracked and processed in a timely and efficient manner. This process will also ensure timely and accurate preparation of FNS-10, 44 and 418 reports.

Sequence	Method	Duration/Deadline
1.	Claims are date stamped upon receipt by SEO and Placed in SNAC mailbox. The Claims Processor Retrieves the claims from the SNAC mailbox. (If a Program Specialist receives a claims they are to Immediately date stamp it in and give to the Claims Processor (CP))	Same Day
<i>Claims are due in the office by the 10th of each month</i>		
2.	<p>Once the Claims Processor (CP) receives the claim, the claim must be logged-in the Claims Tracking Systems.</p> <p>The (CP) checks the claim for completeness (i.e. #of Meals, # of F, R, and P totals, signatures, etc.).</p> <p>If, the claim is not complete, it does not move forward and the CP contacts the Sponsor or SFA immediately to correct the error.</p> <p>Note: DO NOT MAKE ANY ALTERATIONS OR WRITTEN NOTATIONS ON THE ORIGINAL CLAIM FORM. All changes must be made by the SFA or Sponsor.</p> <p>Only claims with original signatures will be processed for payment.</p>	24-48 hours of receipt
3.	If the claim is determined to be correct, the CP will prepare a Cover Sheet and Grantee Sheet.	2-4 days

STATE EDUCATION OFFICE'S RESPONSE TO THE REPORT

Sequence	Claims review process	Duration/Deadline
4.	<p>The claims are batched for final review by Program Specialist (PS). If the PS determines that a claim needs to be revised, the recommended revision is to be communicated to the CP for approval. The PS must provide a written justification for the change. Note: All approvals to revise a claim must come from the SNAC Director or her designee.</p> <p>Note: The PS is responsible for approving their assigned school agreements/rates. Therefore, the PS reviews their designated claims for accuracy and sign the Grantee Sheet. The PS returns signed claims to the CP. If the PS is not available to review the claims within 24-48hrs, a designated PS will sign the grantee sheet. A copy of the claim must be given to the PS for review. The PS must follow the outlined process if an adjustment to the claim is recommended.</p>	<p>Within 24-48hrs Upon receipt</p>
5.	<p>The Program Specialist returns the approved claims to the CP.</p> <p>The CP creates a transmittal sheet, copies the Cover and Grantee Sheets and submits to the Director for signature.</p> <p>The signed transmittal sheet and the copies are logged out by the CP and sent to the Office of Finance and Resource Management for payment.</p>	<p>5th – 20th of each month</p>
6.	<p>All claims are given to the CP to be added to the Worksheet that is used to generate the federal reports.</p>	<p>By the 20th of the month</p>
7.	<p>The claims are returned to the CP to mail back copies to the Sponsors and SFA's</p>	<p>End of the Month</p>
8.	<p>The final copy of the claim is filed by the CP.</p>	<p>End of the Month</p>